

The Paradox of Reform

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Crises are both risks and opportunities. They create uncertainty and ambiguity not only because they tend to bring about change but also because they simultaneously point to different directions of policy. Politicians are torn between two opposing forces. They face the challenge of urgently needing to respond to the exigencies of the moment while being tempted by the opportunity to implement long awaited reforms. Response is defined as the short-term effort – e.g., tax increases and spending reductions – to return things back to “normal.” Reform makes deep, structural changes in policies – e.g., tax collection and public employment – to bring about a new “normal.” There are incentives to move in both directions at once which are periodically updated by elections. However, quite often politicians end up using crisis rhetoric to undermine reforms and return back to the same policies that caused the crisis in the first place. Following the Euro-elections, the Greek government of Antonis Samaras appears to be heading in precisely this direction.

The Prime Minister emphatically proclaimed he received the electoral message: things must change and remain the same. By this he meant policies would remain largely the same whereas the people crafting and implementing the policies, i.e., the cabinet, would change substantially. But this is the surest recipe for failure.

There is no denying that progress has been made in meeting at last some of the targets specified in the bailout package. Revenues are up significantly, there is even a substantial primary budget surplus, something that Greek governments have not accomplished since the 1950s. Economic growth appears tenable in the near future, bringing to an end the country’s longest recession since the dark days of World War II. But the current trajectory is not sustainable. The reason is not reform fatigue, as most analysts claim, but the haphazard implementation of reforms.

The biggest enemy of economic growth is uncertainty. This is because investors need to know the rules of economic competition to estimate with some degree of confidence the likely returns to their investment. Structural reforms, such as improved collection measures, as opposed to short-term policies, such as tax increases, create even more uncertainty because they have long-term consequences. It is imperative that the government keep the same people who produce results at the helm. Instead the Prime Minister decided to change leadership in key ministries, most notably the ministries of Finance, Development, Health, and Education although he kept Mr. Mitsotakis in the ministry of Administrative Reform. If particular individuals meet targets and faithfully implement very difficult measures, such as those espoused by Mr. Stournaras in the Ministry of Finance, what is the point of changing leadership? It is extremely difficult under current conditions for Greek policy makers to build rapport with Greek voters and the country’s external creditors because of the terrible record most Greek politicians have in actually doing what they are supposed to be doing. As the old saying goes, “if it ain’t broke, why fix it?”

The Prime Minister proclaimed that the government needs to stay the course but correct “some injustices in implementation.” His statement has been interpreted as an attempt to recalibrate the balance between the adverse effects of reforms with the government’s political interests. Stournaras and the outgoing general secretary for revenues Haris Theoharis, who held an independent five-year civil service position, were blamed by many within New Democracy, the conservative party which is the senior coalition partner, for its lackluster performance at the European Parliament elections on May 25.

But the Prime Minister, and the deputy Prime Minister, went further. They brought in new faces augmenting the number of ministerial positions to 46, from 42 in 2013 and 39 in 2012, as if Greece’s problem is the small number of its leaders. Many of the newly appointed ministers are well known for their combative, partisan style. So why appoint them? It may be to reconnect, as Reuters reported, with their parties’ parliamentary groups and traditional members.

If the point is to stay the course, why change? If the point is to correct injustices, why the ministers who have produced results, and why wait until after the election? If finally the point is to reconnect with the partisan bases, isn't this another way of going back to the old clientelist policies of the past?

The Prime Minister is keenly aware of the need to energize his partisan base but he must also remember the necessity to produce results. Energizing his partisan base may keep him in power for a short time but only reforms will produce the results needed to keep him in power for the long-term. This is especially true in light of the presidential election in February 2015. The government needs allies who will not come from partisan frenzy but from mollifying the opposition. The only way to gain the (even tacit) support of the opposition is to convince voters their sacrifices will bring better days, there is light in the end of the tunnel. Only consistently and honestly implemented reforms, and not the clientelist policies of the past, will convince voters to pressure policy makers to come to some form of consensus. Regardless of short-term electoral gains, undermining reforms will bring yet more failure.